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MEMORANDUM

May 26, 1982

To: Olin Robison, C.W. Leeds, Hugh Marlow, Carroll Rikert, Gordie Perine

From: Ron Nief

This is the final, revised version of Felix Rohatyn's commencement address edited from a tape of his actual presentation. We are having 75 copies made for fulfilling requests. We will be happy to send copies to those requesting same from your office, or we can send you copies if you wish to respond personally.

This is the version which will be printed in the summer issue of the Magazine.

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COMMENCEMENT ADDRESS DELIVERED BY

FELIX G. ROHATYN '49

BEFORE THE GRADUATING CLASS OF 1982

OF MIDDLEBURY COLLEGE

MIDDLEBURY, VERMONT

MAY 23, 1982

It has been more than thirty years since I graduated, without the slightest distinction, from a small, idyllic, some might say Ivory Tower, college in Vermont called Middlebury. I had come to the United States in 1942, a refugee from Nazi-occupied France. America meant freedom and opportunity for me; Franklin Roosevelt was America, Middlebury was part of a heady post-war period, of belonging somewhere, of becoming a U.S. citizen, of having a future. A small, bouncy, bald professor named Benjamin Wissler taught me the difference between a fact and an assumption, between reasoning and guessing. Even though, soon after graduation, I was drafted for the Korean War and graduated from that experience as a Sergeant of Infantry, also without distinction, nothing during that period dimmed my conviction that in the U.S. tomorrow would be better than today, as would every tomorrow thereafter. Insofar as I am concerned, America has far exceeded my personal expectations. No European country would have given a Jewish refugee, of Polish extraction, the opportunities in business and in public affairs that this country has given me.

And yet it would be disingenuous and unrealistic not to recognize that the world as a whole and the U.S. in particular, are profoundly changed from my graduating year of 1949.

A friend of mine, one of the more civilized corporate chairmen, said to me recently: "I no longer give commencement addresses; the graduates are entitled to an upbeat speech and I am no longer capable of delivering it." It gave me pause because I certainly do not have an upbeat speech; however, a realistic assessment of where we are cannot be equated with hopelessness. We saved New York City from bankruptcy against

much greater odds than those facing this country today. But we did it by being ruthlessly realistic about the mess we were dealing with and by assuming, quite correctly, that when things look very bad, they usually turn out to be worse than they look.

Today, the United States and the world as a whole are messy, but they are better than they were. They have always been messy for that is the nature of most societies, but things are clearly no worse today than they were in the 1930s, with a depression in America and Europe facing Hitler and Stalin. We are facing very complicated, some possibly intractable problems on a very large scale all over the world. We have at our disposal exploding levels of technology as well as instantaneous and, almost infinite access to information. As a result, the United States today faces an uncertain, but certainly not hopeless future. Unfortunately, it faces this future with an ideology and a philosophy more suitable to the past than to the present.

After our most recent Presidential election, the nation was mesmerized, first by the theory, and then by the implementation, of supply-side economics. This turns out to be John Maynard Keynes in disguise. After all, running large deficits as a result of tax cuts and defense-spending is little different from running large deficits as a result of social programs and public works. The country eventually goes bankrupt either way. However, while all the attention was focused on the economic program, the nation paid little attention to the true radicalism of the Administration's program, namely the deliberate use of hugh deficits to bludgeon the Congress to reduce dramatically the role, and the responsibility, of government.

The American Revolution of 1981 was, therefore, as profound in its reach as it was little noticed in its underlying philosophy. The last fifty years have witnessed a basic continuity on the part of one Administration after another on two counts: First, that Government had a responsibility to improve the lot of those unable to help themselves. Secondly, from 1932 to 1980, one government after another, albeit with different levels of conviction, accepted the basic thesis that the American free enterprise system could not rely solely on the free market to provide opportunity for all our people. Even President Nixon, when forced by events, imposed wage and price controls, and enacted sweeping environmental legislation in support of this philosophy. The Revolution if 1981 is changing all that.

The United States is more than a nation, it is a continent. Within this continent lie our greatest challenges and the most serious threat to our democratic form of government: Income and class disparities on the one hand, regional disparities on the other. The Reagan Administration's approach to these issues was to state that tax policy should not be used to effect social change and that citizens should vote with their feet. As a

result, a completely laudable attempt to improve American productivity by stimulating investment has resulted in an economic program incoherent in its application.

Budget cuts have been largely concentrated on lower-income programs such as food stamps and welfare and have not, so far, touched the large, middle income support programs, indexed to the cost-of-living, such as Social Security and pensions. Massive tax cuts, coupled with enormous and apparently indiscriminate increases in military spending, have created the perspective of enormous federal deficits for years to come. The growth in the economy which was expected to pay for these programs is, time and again, choked off by high interest rates.

At the same time, a strong regional tide is running away from this part of the country. Unless vigorous actions are taken soon, Older America, the Northeast and Midwest, tied to traditional industries like autos, steel, glass and rubber, seriously wounded by Japanese competition, will not provde the jobs, the schools, the taxbase to maintain the physical plant of its cities, and the minimum requirements of its citizens. Half this country will be basking in the sun, swimming in oil and defense contracts while the other half will sink further and further into physical decay, social stress and despair.

The basic test of a functioning democracy is its ability to create new wealth and see to its fair distribution. When a democratic society does not meet the test of fairness, when, as in the present state, no attempt seems to be made at fairness, freedom is in jeopardy. Whether the attack comes from the left or from the right is irrelevant; both extremes are equally lethal.

We have seen, in 1981, that legislating sacrifice puts the burden on those least able to afford it and that moderating inflation can only come through the bitter medicine of steep recession. Those solutions are neither fair nor are they likely, ultimately, to be effective. At a time of stress, sacrifice has to be negotiated and not legislated.

Austerity and democracy do not walk hand-in-hand in the United States except in wartime. The near bankruptcy of New York City in 1975 created something like the 'moral equivalent of war' for city and state politicians, as well as for business and labor leaders. Before then, the City had, for years, plunged ahead toward disaster.

It was only when this became apparent that Governor Carey called on business and labor to join forces with government in order to devise a program that would head off the crisis and bring the City back to life.

What ultimately saved New York City was a limited period of austerity, imposed under the direst of threats, followed by gradual relaxations while a prosperous city economy, together with inflation, generated the growth in revenues to bring about a balanced budget. Our imposition of extreme austerity was temporary and it required courageous political leadership as well as a true social contract with business and labor. We created structures, such as the Municipal Assistance Corporation, which are clearly intrusions into the political process; they have not, in any way, hurt the democratic process. And the people of the City were willing to make real sacrifices as long as they believed those sacrifices were fairly distributed, that there was an end in sight and that the result would be a better city, a better environment and a better life.

It is worth analyzing what we were able to do in New York as well as the limits beyond which we were not able to go, since New York is, in certain respects, a mirror of the United States.

Maybe for the first time in its history, the United States is faced with doubts about its destiny. In less than twenty-five years we have gone from the American century to the American crisis.

The United States today is a country in transition. It is in transition from being the world's dominant military power to sharing that role with the Soviety Union; it is in transition from an industrial to a service society; from being a predominantly white, northern European society based in the Northeast and Midwest to being a multi-racial society with its center of gravity in the Sunbelt. A society in transition cannot be governed by rigid dogma; on the contrary, it requires a government which is flexible, pragmatic, even sometimes deliberately ambiguous. Shared values must be clear, but the means to the end cannot be rigid. From Fascism to Communism, from monarchy to anarchy, the ends of government are purportedly the same. Justice with opportunity, higher standards of living, peace in our time. The means to the end are very different, however, and the means are what determines whether we live in a free society.

The critical issues we face today are not the levels of interest rates or what kind of package finally comes out of budget negotiations. These things are important, but our fascination with numbers must not obscure the real issues. These are, in no particular order:

> The rapid growth of a permanent underclass in America. The residents of inner-city ghettos, black and Hispanic, undereducated, underskilled, without real hope of participating in the future of the country;

The regional split between Sunbelt and Frostbelt, which is accelerating and which will leave the northern half of the United States in serious difficulty;

The decline of our traditional manufacturing sectors, the decay of our older cities and the decline in the quality of urban life;

Illegal immigration in great numbers, especially from Mexico, which will create additional social tensions unless we produce enough jobs to absorb our own unemployed along with new arrivals;

Nuclear proliferation and the need to control and reduce the level of nuclear weapons while being realistic about Soviet power.

To be fair and even-handed, I should probably attempt to sketch the many reasons today to be optimistic about the future. The new technologies and inventions, the exploration of space and the oceans, communications and education, advances in medicine and knowledge of the human body, plus the myriad new developments we cannot even conceive of today. We must also be realistic in recognizing that we are today the strongest economic power in the world and that we are facing a Soviet system which is spiritually and financially bankrupt.

If I seem to dwell on the problems it is probably for two reasons. First, because I have been trained, professionally, to look after the bad news first and let the good news take care of itself. Second, because I believe that in our problems lie the most serious challenges to our system and in their resolution, lie some of the greatest opportunities for tomorrow.

And yet the list of problems, however, that I reviewed is by no means a complete list and their diversity and complexity indicate the futility of trying to deal with them by across-the-board economic theories and "hands-off" government. The role of government, in the last decades of this century, will be <u>the</u> paramount question to be decided.

Today, we are witnessing a paradox: A government which abdicates to a theoretical marketplace most of its responsibilities for the welfare of the people, while wishing to intrude on people's most private decisions. How does one equate the conservative passion to intrude on such issues as abortion, school prayer and the death penalty with its equally fervent passion for the free market as the fount of all benefits? Today's conservative experiment will fail because it has no relevance to the world we live in, just as yesterday's liberalism failed for exactly the same reason. We are soon, however, going to run out of time for experiments.

Benny Wissler once snappily explained to me that there was no such thing as the wrong answer; there was only a wrong answer. It was only recently however that I concluded that, especially in government and public life, there may not be any such thing as the right answer. There may, at best, exist a process whereby trends can be affected and the direction of social and economic behavior temporarily influenced. This is the antithesis of the planned, central domination of government, but it means government committed to oppose destabilizing trends before they become floodtides. It is a permanent but ever changing process.

A Rabelaisian friend of mine once compared saving New York City to making love to a gorilla. "You don't stop when you're tired," he said to me, "you stop when he's tired." The gorilla never tires and government can never abdicate its responsibilities.

At the same time, we must recognize that it was the unrealistic liberalism of the Great Society and the perceived wishy-washiness of the Carter Administration that brought us the 1981 Revolution. We may be heading for an economic and social catastrophe with supply-side economics and the Laffer curve; we were surely headed for one with runaway spending, runaway inflation, and the appearance of weakness symbolized by the Iranian hostage crisis.

What alternatives are we facing if the current social and economic experiment fails?

One scenario is rather frightening. Described by Kevin Phillips recently in an article entitled "Post-Reagan America," it involves far greater government control over the economy as well as authoritarian right-wing populism. Limiting political and social dissent in the name of law and order, corporate statism can lead to something far worse. To those who say it cannot happen here, I would simply say that democracy is a fragile system and that we are stretching it to the breaking point. The essential questions of fairness and opportunity cannot be answered in the affirmative today by an economic policy which seems to favor the wealthy and a government which invests mostly in the military.

Another scenario is scarcely more inspiring. The attacks on many of our institutions by liberals of the late 1960s and early 1970s reached a level of shrillness and violence which created the impression, among millions of Americans, that liberalism was the antithesis of some of our most basic values: love of country, love of family, the work ethic. While this was happening, many of the Great Society social programs, enacted in the 1960s for totally valid reasons, turned out to be uncontrollable spending machines, which threatened to bankrupt

our economy. The Achilles heel of liberalism, in a world of limited resources, is its apparent unlimited capacity to cave in to pressures for runaway spending. A bankrupt country is also incapable of maintaining the freedom of its people.

Where can we go, then, if neither conservatism nor liberalism has the answers and if a failed attempt at a middle-ground, the quintessence of Jimmy Carter, winds up in shambles. Recently, the Head of the French Socialist Party compared the political center to the Bermuda Triangle. "Everyone who goes there, disappears forever," he said. And yet, the answers, if there are any, must come from a rational middle ground; however, it need not be wishy-washy.

There is no reason why a hard-headed liberalism cannot live with the reality that we cannot spend ourselves into bankruptcy.

There is no reason why social programs, impeccable in their objectives, have to be grossly abused, or expanded to include those who really don't need them.

There is no reason why an economy, geared mostly to private sector growth, cannot at the same time, permit limited government intervention where needed. A modern version of the Reconstruction Finance Corporation of the 1930s could help rebuild our cities and restructure our basic industries without threatening our basic free enterprise system.

There is no reason why limited and temporary protection for our hard hit industries cannot be conditioned on restrained wage and price behavior by labor and management; this might become the model for an incomes policy where wage and price behavior could be linked to productivity.

There is no reason why large savings cannot be effected in defense, and particularly in reducing nuclear delivery systems, if we are willing to pay the price of larger standing conventional forces.

There is no reason to abandon human rights abroad and deal with murderers from the right because they happen to be anti-communist. Nor is there reason to tolerate murderers from the left on the romantic notion that they are agrarian reformers.

However, although there is no reason why these results cannot be achieved, we must be realistic about the political difficulty of bringing this about. Without the active support of the American people and the active cooperation of business/labor/and government, it cannot happen.

In times of upheaval, the passions must be for moderation and not for extremes. As Anwar Sadat well knew, the passion for moderation may be one of the most dangerous passions today, and yet it is especially vital to our future. Sadat took the risks, and paid the price. Even though today's technology provides us with mountains of instant data, it is useless without judgment. And if judgments are to have value, policy decisions have to be made early. When the crisis is clear it is often too late to act. That is the dilemma of statesmanship and the possibly fatal flaw in a political system which only seems to act when it is too late.

France has given the world a lot; not least is the skepticism of Montaigne and of Voltaire. Skepticism is what is needed today, skepticism of easy solutions, of cant, of ideology of the left or right. Skepticism does not equate with cynicism; it is not inconsistent with the fiercest patriotism or the firmest belief in basic values. But it can be the anchor to windward when our basic institutions seem to be adrift with the tides.

Yesterday, your President spoke to you of the American dream; today, I speak to you of the American reality. They are not inconsistent with each other but unless you face the latter, you will never achieve the former. Ladies and Gentlemen of the Class of 1982, I do not envy you but I do not feel sorry for you. You will have an exciting time and it is likely to be hard going. The United States is in need of change and your challenge will be to provide it as well as to adjust to it. As the rate of change accelerates, as the problems become greater and the solutions more elusive, get involved in public affairs. It is a great adventure.

Politics is not the only way to become involved in public life. There will be many structures such as Municipal Assistance Corporation, where private citizens can play important roles. I had the privilege of participating in a great adventure, the rescue of New York City. It was an experience both terrifying and exhilirating which I would not have missed for anything. It taught me what you will find out. To be skeptical and always look over your shoulder, but to get involved deeply and to shoot for the moon. To beware of lawyers and consultants and people who do not take risks and who do not get their hands dirty. There are even more experts today than there are problems, but there is no greater strength than an open mind combined with a willingness to take risks. Middlebury opened my mind as I am sure it did yours. In order to take risks, however, you have to go in harm's way. What happens then and how you perform, will depend on the fates as well as on your character.